CEDF 2006 ANNUAL REPORT

2007-01420/

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LETTER OF TRANSMITTAL

March 31, 2006

The Honourable Oscar ılin
Minister Responsible for the
Communities Economic Development Fund
Province of Manitoba
Room 344 Legislative Building
Winnipeg MB R3C 0V8

Dear Sir:

On behalf of the Board of Directors, it is my privilege to forward the Annual Report with the audited financial statements of the Communities Economic Development Fund for the year ending March 31st, 2006.

As part of its strategic development plan and mandate, the Fund is participating in development strategies directed at the community level in conjunction with other government departments, as well as continuing its core business as a provider of capital to small business and to the fishing industry.

There are many challenges in business development and the fishery in this vast region and we are fortunate in having dedicated, knowledgeable staff members to lend their expertise to the programs.

We look forward to continued success in expanding our service delivery areas and working with government to realize this potential.

Respectfully submitted,

H. Westdal

Harold Westdal
Chairperson

CORPORATE

Minister Responsible: The Honourable Oscar Lathlin

Board of Directors:

Chairperson:	Harold Westdal	Winnipeg
Directors:	Linda Ballantyne	Grand Rapids
	Rob Barbe	Winnipegosis
	Darlene Beck	Cross Lake
	Bill Cordell	Pikwitonei
	Gavin Lawrie	Churchill
	Bob Veito	The Pas
	John R. Yellowback	God's River

Officers:

General Manager & CEO: R. Gordon Wakeling

CFO & Manager of Fisheries Loans Program: Rajinder S. Thethy

Head Office:

100 - 23 Station Road
Thompson, Manitoba R8N 0N6
Telephone: (204) 778-4138
Fax: (204) 778-4313
Toll Free: 1-800-561-4315 (In Manitoba only)

Field Offices:

Business Loans
3-1000 Main St., Swan River, MB R0L 1Z0

Fisheries Loans
Box 1277, Hwy 9 & Colville Dr., Gimli, MB R0C 1B0
Box 10548, Opaskwayak, MB R0B 2J0
Bay 8, 1680 Ellice Ave., Winnipeg, MB R3H 0Z2

CORPORATE PROFILE

The Communities Economic Development Fund is a Manitoba Crown Corporation, incorporated under the Communities Economic Development Fund Act (C155 of the Consolidated Statutes of Manitoba).

Legislated Mandate:

The Object of the Fund, as stated in section 3(1) of the Act is as follows:
"The object of the fund is to encourage economic development
(a) In Northern Manitoba, as defined by the Lieutenant Governor in Council by regulation;
(b) subject to the approval of the Lieutenant Governor in Council, in the fishing industry in the province, by acting as a lending authority and administering a loan program with respect thereto; and
(c) in conjunction with financial assistance provided by the Government of Canada under any economic development program to assist aboriginal people in the province outside The City of Winnipeg;
with particular emphasis on the needs of small business enterprises and community development corporations."

Section 3(2) of the Act states it shall do so through the provision of "financial and other forms of assistance":
"The fund may provide financial assistance and other assistance, as set out in subsection (3), to assist in the establishment of new economic enterprises and the development of existing economic enterprises."

The Act defines financial assistance as: "financial assistance" includes a loan or guarantee, a lease of personal property or real property, the purchase or sale of shares, assets or securities of a corporation, and the underwriting of the securities of a corporation;"

Other forms of assistance are defined in section 3(3) of the Act:
"The fund may provide, with or without charge,
(a) information and advice respecting the techniques, methods and practices required for the successful administration of economic enterprises;
(b) training for individuals, including employees, managers and directors, in an economic enterprise; and
(c) conferences, seminars and other meetings for the promotion of good management practices in economic enterprises."

Programs:

The Fund provides loans and guarantees to small to medium enterprises and to the commercial fishery through three programs:

Business Loan Program
Fisheries Loan Program
TEAM

In addition, the Fund delivers programs under an MOU with the Department of Intergovernmental Affairs.

CORPORATE REPORT

The Fund is organized into four departments or Strategic Business Units (SBU):

Administration - manages all accounting, finance, and management information services for the Fund.
Business Loans - provides loans and guarantees to economic enterprises.
Fisheries Loans - provides loans to the commercial fishing industry.
Community Development - delivers community level programming to assist northern communities in expanding economic opportunities.

During the current year, CEDF adopted target objective areas for each SBU as noted in the individual unit discussions below.

ADMINISTRATION:

This unit administers both treasury and administrative functions for the Fund. Its objectives are:

Administration

- Budget management
- Timely reporting of performance and regulatory reporting
- Information system to assist "line" programs

The Fund and the SBU have achieved these goals. The Fund met its budget objective in 2006, delivering its seventh consecutive year 'on' budget. The Fund's operating core budget remains unchanged since 2001 and it has been challenged to achieve a budget freeze for 06/07 fiscal year. During the year, the department produced its statements on time and filed its quarterly reports as required under legislation. The department met with other units to discuss its reporting systems. Reports were streamlined to provide key performance indicators for staff and to assist the board in governance of the Fund. Staff undertook a review of loan management software during the year, and while no decision to change has been taken, the research has provided valuable feedback to ensure that the programs continue to meet needs.

Treasury

- Adequate capital supply
- Maintain loan accounts with the province
- Money supply to enable the Fund to offer stable rates at market levels
- Loan margin budget target

The department presented its capital requirements under the Loan Act to Crown Corporations Council who in turn presented them to the Manitoba Department of Finance. CEDF's capital supply requirements remain unchanged in the current fiscal year with program lending expected to be within historical norms. In addition, staff has met with the Department of Finance / Treasury Division to discuss the administration of loan funds to ensure that CEDF has the capacity to maximize its loan income while providing competitive rates. During the year, the department undertook a comparison of CEDF rates with chartered banks. The report was presented to the board and concluded that CEDF rates are slightly higher than prime bank rates, but are well in line with the Fund's objectives of providing an efficient source of capital to the region it serves.

Treasury is charged with maintaining budget loan income margin rates – acknowledging that it cannot affect loan volumes. During the year, the Fund achieved margin of 2.86% on a portfolio base of $24,042,119. This exceeded the objective of 2.27% the Fund set out to achieve in its annual operating budget.

BUSINESS LOANS PROGRAM:

The program is the Fund's original program offering. It provides financial assistance in the form of loans and guarantees to encourage economic development in Northern Manitoba. Its key goals are:

- $5 million in annual loan activity
- Account management to reduce loan losses
- Examine new financial products

Within these key goals is the understanding that a lack of access to capital in the region would impair its ability to develop goods and services to enhance both the economic and personal qualities of life for northern residents.

The program approved $4,961,588 in loans during the current fiscal year, approaching its budget target. Loan approvals represent a wide variety of businesses and services in the region. The loan portfolio itself declined, in part due to lower than normal activity in the forestry sector in prior years as a result of reduced investment activity. Recently announced tentative agreement in this area has begun to result in renewed interest in this sector. Despite the decline in portfolio levels, the program continues to support a wide variety of industry types.

During the year the program enhanced its loan supervision targets. The objective of loan supervision and management is early identification of problems and resolution of the issues that clients may be experiencing prior to the loan becoming impaired. CEDF operates in a high risk milieu, and as a result, it is reasonable to assume it takes on more risk and by association experiences higher losses than a conventional lender. For the current fiscal year, CEDF's loan loss was $369,874 or 7.45% of loan activity which, in conjunction with fisheries loans activity, is within budget and within targeted loan loss limits.

CEDF continues to examine the need for new financial products in its region and to take direction from government in this area. The Premier's Economic Advisory Council (PEAC) in its "Bridging Opportunities" report has stated that CEDF may wish to examine:

> "The Communities Economic Development Fund could play a positive role in developing financial instruments that would allow smaller contractors (both Aboriginal and non-Aboriginal) to pursue government work while protecting the government in the event that the contractor fails to perform the work."

CEDF will be examining this opportunity during the next fiscal year.

FISHERIES LOANS PROGRAM:

The program provides loans to the commercial fishery for the purchase or repair of assets required to conduct a viable fishing enterprise. Its key goals are:

- Lending activity $4.5 million annually
- Successful loan management practice

During the year, the program advanced $3,434,194 in new loans to fishers. Its clients produced payments totaling $3,580,669 and producing an estimated $12,800,111 in lakeside fish sales to FFMC. Loan losses in the program were $131,500 – which is within budget.

In general, the fishery is performing well despite declines in realized price for fish due to the increase in value against the US dollar (the industry's primary market). Fish catches in some areas continue at record levels. The program is often the only source of capital available to fishers. Loan limits for the fisheries program had been capped to a maximum amount of $30,000 prior to the transfer of the program to CEDF in 1992. In order to keep up with the rising costs of capital, the individual loan limits have been increased

from $30,000 to $50,000 in this fiscal year. During the year the program has also been challenged by the need to address growing costs for quota entitlements on Lake Winnipeg. Management continues to meet with industry and with government to address the issue.

COMMUNITY PROGRAMS:

This program area's objective is to assist communities in identifying and maximizing economic opportunities in Northern Manitoba.

The unit delivers programming under three areas with the associated goals noted:

- Community Partners (Pilot)
  - Enroll four communities
  - Identify and pursue two macro businesses for each of the pilot communities.

- Service Delivery of REDI/MAFRI Programs in NE Manitoba
  - Support existing Community Development Corporations (CDC) and Community Works Loan Programs (CWLP) to ensure proper and consistent loan lending procedures.
  - Assist communities with a CDC in place in meeting objectives.
  - Assist communities interested in establishing CDCs.
  - Promote the Feasibility Studies Grant, Youth Grant, and the REA loan assistance program and other programs as directed by MAFRI.

- TEAM Program
  - Continue to support requests for technical assistance in starting up a micro enterprise.
  - Develop market opportunities for TEAM clients.

Since announcement of the Community Partners pilot project in August, the program has recruited four communities. CDC's have been formed in these communities and have begun strategic planning. The program continues to support other CDC's and CWLP funds in the remainder of the region.

The TEAM program continues to support business enquiries and has recently launched a website to market crafts (a work in progress) at www.northernnativeart.ca.

LOANS APPROVED

Amount	Name	Business	Location	Interest Rate	Terms In Months
$750,000	5250821 MB Ltd. (Kernaghan)	Lodge	Churchill	7.75%	60
94,895	993271 AB Ltd. (Brady Tire & Auto)	Auto Repairs/Sales	Swan River	7.50%	60
12,640	Larson Anderson	Auto Sales	Norway House	7.63%	36
28,000	Dwight Bjork	Logging/Forestry	Wanipigow	7.63%	36
12,092	Dwight Bjork	Logging	Wanipigow	7.75%	36
8,747	Justin Bjork	Forestry	Wanipigow	7.75%	30
41,100	Justin Bjork	Forestry	Wanipigow	7.63%	36
300,000	Cross Lake Band of Indians	TV/Cable Service	Cross Lake	7.75%	48
44,948	Ken & Sherry Dayson	Transportation	Swan River	8.13%	48
805,000	Easterville/WSD	Fishery	Easterville	7.35%	12
388,922	Gold Trail (2003) Ltd.	Restaurant/Hotel	Thompson	7.75%	60
195,420	Goldsand Adventures Ltd.	Lodge	Lynn Lake	7.75%	60
36,000	Goodman's Landing Fisheries	Fish Plant	Hodgson	7.63%	48
49,900	Donald Gould	Freighting Goods	Churchill	7.48%	60
20,000	Scott Green	Trucking/Forestry	The Pas	8.25%	12
272,000	Guardian Air Ltd.	Aeromedical/Maintenance	Cross Lake	7.75%	60
30,000	Andrea & John Hatley	Wild Rice Harvesting	Gillam	7.63%	36
13,869	Edward & Hazel Head	Taxi/Transportation	The Pas	8.13%	24
15,725	Stanley & Helen Homeniuk	Gas/Confectionery	Benito	7.85%	48
41,100	JLH Ventures Inc.	Trucking	Swan River	7.93%	48
150,000	Lyle Kernaghan	Lodge	Churchill	7.75%	60
8,620	Abby & Keith Klyne	Confectionery	Easterville	7.65%	24
750,000	Ondrej & Andrew Koprajda	Hotel	Winnipeg	7.50%	60
63,784	Terry Mowatt	Cabin Rentals	Norway House	7.25%	60
236,639	My's Est. 98 Ltd.	Gas Bar/Confectionery	Wabowden	8.13%	60
42,000	Napanee Bay Fisheries Inc.	Fish Plant	Easterville	7.63%	2
62,034	Napanee Bay Fisheries Inc.	Fish Plant	Easterville	7.75%	48
40,000	Ochekwi-sipi Economic Dev. Corp.	High Speed Internet	Koostatak	7.75%	48
37,980	Pine View Realty Ltd.	Real Estate	The Pas	7.25%	60
91,850	Marc & Heather Provencher	Computers/Education	Swan River	6.65%	60
125,345	Ritz Machine Works Inc.	Machinery Manufacturing	Dauphin	8.13%	60
105,500	Andrew & Flora Simpson	Septic Service	Norway House	7.63%	50
10,000	The Ateliers Took & Cam Inc.	Pet Wear	Churchill	7.75%	36
29,478	Len & Constance Therens	General Construction	Swan River	7.65%	36
48,000	Trach's Trucking & Sales Ltd.	Transportation/Trucking	Wabowden	8.13%	48
$4,961,588		**Total Approvals 35 Clients**			

HISTORICAL BUSINESS LOANS DATA

YEAR APPROVED	AMOUNT	APPLICATIONS APPROVED	JOBS CREATED AND/OR RETAINED
1972 - 1978	$5,044,670	236	665
1979	556,459	20	92
1980	1,982,791	37	144
1981	1,180,740	34	120
1982	2,800,140	46	176
1983	2,138,275	31	138
1984	2,080,595	49	144
1985	2,326,548	63	172
1986	2,909,735	43	159
1987	3,573,294	66	215
1988	3,550,050	70	210
1989	725,243	22	31
1990	1,681,090	38	136
1991	1,737,344	30	80
1992	1,183,686	19	102
1993	5,406,375	36	120
1994	1,427,220	21	88
1995	4,811,247	51	135
1996	6,134,635	64	252
1997	4,321,829	53	198
1998	4,387,457	45	230
1999	5,188,498	41	178
2000	2,062,664	36	165
2001	2,797,419	28	170
2002	2,787,386	28	166
2003	5,174,099	39	213
2004	4,721,154	41	267
2005	2,834,888	33	359
2006	4,961,588	35	155
	$90,487,119	**1,355**	**5,280**

PERFORMANCE DATA

	2006	2005	2004	2003	2002
No. of Loans Approved - Business	**35**	33	41	39	28
Dollar Value - Business	**4,961,588**	2,834,888	4,721,154	5,174,099	2,787,386
No. of Loans Approved - TEAM	**1**	1	2	6	11
Dollar Value - TEAM	**1,352**	3,000	5,038	15,536	29,911
Dollar Value - Fish Approvals	**3,587,401**	3,824,575	4,677,215	4,099,629	3,901,248
No. of Active Loans - Business	**125**	133	149	150	132
No. of Active Loans - TEAM	**18**	21	21	19	15
No. of Active Loans - Fish	**1,180**	1,207	1,191	1,153	1,119
Portfolio Value - Total	**24,042,119**	25,090,244	26,729,480	25,007,290	23,158,654
Bad Debt Expense - Business	**369,874**	473,308	619,715	417,594	443,080
As a percentage of Approvals	**7.45%**	16.70%	13.13%	8.07%	15.90%
Bad Debt Expense - Fish	**131,500**	86,662	0	0	0
As a percentage of Approvals	**3.66%**	2.27%	0%	0%	0%
Total Subsidy	**1,513,839**	1,514,322	1,489,762	1,493,068	1,487,145
Subsidy as a % of Approvals	**17.70%**	22.73%	15.84%	16.07%	22.23%

ECONOMIC IMPACT

The Fund continues to face numerous challenges to maintain its primary function and at the same time deliver a professionally managed development agency for economic expansion including the number of jobs created and maintained.

We present the following data which reflects our impact on the regional economy within our mandated area.

JOBS

Number of persons directly employed in businesses supported by Fund loans:1	750
Number of fishers supported by Fund Loans:2	1,353
Total Employment:	2,103

REVENUES

Total revenue of Business Loan clients:1	$59,203,128
Total revenues of Fisheries Loan clients (before final payments and transfer income):2	12,802,111
Total Revenue	$72,005,239
Direct Wages Paid1	$14,701,713

1 Data is drawn from material financial statement provided by clients and from on-site observations by Fund staff during the annual account review.

2 Data is drawn from payments provided to Fund and from active accounts within loan ledger.

AUDITOR'S REPORT

BDO Dunwoody LLP/s.r.l.
Chartered Accountants and Advisors
Comptables agréés et conseillers

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Winnipeg Manitoba Canada R3C 4L5
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To the Directors of
COMMUNITIES ECONOMIC DEVELOPMENT FUND

We have audited the statement of financial position of COMMUNITIES ECONOMIC DEVELOPMENT FUND as at March 31, 2006 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba
May 26, 2006

BDO Dunwoody LLP is a Limited Liability Partnership registered in Ontario
BDO Dunwoody s.r.l. est une société à responsabilité limitée constituée en Ontario

STATEMENT OF FINANCIAL POSITION

March 31	2006	2005
ASSETS		
Current Assets		
Cash	**$ 288,897**	$ 159,579
Trust deposits - Province of Manitoba	**1,329,818**	10,496
Due from the Province of Manitoba (Note 2)	**2,028,844**	2,120,222
Accounts receivable	**64,078**	33,960
Property held for resale	**153,808**	191,748
Prepaid expenses	**7,692**	6,568
	3,873,137	2,522,573
Loans receivable (Note 3)	**19,610,537**	20,822,023
Capital assets (Note 4)	**17,151**	21,847
	$ 23,500,825	$ 23,366,443
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 349,568**	$ 936,925
Interest payable to the Province of Manitoba	**352,821**	511,654
	702,389	1,448,579
Commitments (Notes 5 and 6)		
Accrued pension liability	**1,637,502**	1,647,867
Advance by the Province of Manitoba (Note 7)	**21,160,934**	20,269,997
	$ 23,500,825	$ 23,366,443

Approved on behalf of the Board:

Director

Director

STATEMENT OF OPERATIONS

For the year ended March 31	2006	2005
Revenue		
Loan interest		
TEAM	**$ 4,117**	$ 4,292
Business Program	**876,937**	1,007,164
Fisheries Program	**938,066**	878,800
Investment income	**34,496**	35,167
	1,853,616	1,925,423
Cost of Funds		
Interest paid to the Province of Manitoba		
Business Program	**455,950**	540,633
Life insurance	**73,853**	73,180
Trust line of credit	**75,844**	65,549
Fisheries Program	**558,424**	553,072
	1,164,071	1,232,434
Gross margin	**689,545**	692,989
Operating expenses (Page 24)	**1,783,687**	1,716,476
	(1,094,142)	(1,023,487)
Other income - administration fees	**81,680**	69,132
Deficiency of revenue over expenditures before provision for doubtful loans	**(1,012,462)**	(954,355)
Provision for doubtful loans - regular operations	**501,374**	559,970
Deficiency of revenue over expenditures before subsidy due from Province of Manitoba	**(1,513,836)**	(1,514,325)
Subsidy due from the Province of Manitoba	**1,513,836**	1,514,325
Excess of revenue over expenditures for the year	**$ -**	$ -

STATEMENT OF CASH FLOWS

For the year ended March 31	2006	2005
Cash Flows from Operating Activities		
Deficiency before subsidy	**$(1,513,836)**	$ (1,514,325)
Adjustments for		
Amortization of capital assets	**10,476**	17,383
Provision for doubtful loans	**501,374**	559,970
	(1,001,986)	(936,972)
Accounts receivable	**(30,118)**	31,391
Accrued interest receivable	**72,242**	(143,724)
Prepaid expenses	**(1,124)**	2,419
Accounts payable	**(587,357)**	555,846
Accrued interest payable	**(158,833)**	(84,804)
Accrued pension liability	**(10,365)**	132,660
	(1,717,541)	(443,184)
Cash Flows from Financing Activities		
Due from the Province of Manitoba	**91,378**	(633,982)
Advance by the Province of Manitoba	**890,937**	(967,744)
Subsidy - Province of Manitoba	**1,513,836**	1,514,325
	2,496,151	(87,401)
Cash Flows from Investing Activities		
Loans receivable, net of repayments	**637,870**	424,675
Purchase of capital assets	**(5,780)**	(5,985)
Property held for resale	**37,940**	144,213
	670,030	562,903
Net increase in cash and cash equivalents	**1,448,640**	32,318
Cash and cash equivalents, beginning of year	**170,075**	137,757
Cash and cash equivalents, end of year	**$ 1,618,715**	$ 170,075
Represented by		
Cash	**$ 288,897**	$ 159,579
Trust deposits	**1,329,818**	10,496
	$ 1,618,715	$ 170,075
Supplementary Information		
Interest paid	**$ 1,278,549**	$ 1,244,057
Interest received	**1,891,361**	1,746,532

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

March 31, 2006

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Actual results may differ from those estimates. The significant accounting policies used in these financial statements are as follows:

Loans Receivable

Loans are carried at the unpaid principal plus accrued interest, less allowances for doubtful loans. Loans considered uncollectible are written-off. Recoveries on loans previously written-off are taken into income.

Allowance for Doubtful Loans

Business Loan Program - The loans are reviewed quarterly to assess potential impairment or loss of value. Impaired loans are defined as those which are greater than two payments in arrears and for which the value of realizable security is less than the value of the loan outstanding. In these cases, a "specific" allowance is accrued equal to the value of the potential security shortfall or impairment. In all other cases, including loans that are both current and for which there is excess security value, a "non-specific" allowance equal to 5% of the outstanding loan balance is recorded.

Fisheries Loan Program - The allowance for doubtful loans on fisheries loans and interest receivable is calculated based on the present value of future cash flows for those loans which, if they maintain their past payment history, will fail to retire their debt completely within the agreed term. The net present value (NPV) formula used for calculating the allowance for doubtful loans is recognized by the Canadian Institute of Chartered Accountants, however, it does not account for closure of a fishery or regulated reduction of production. In the event of closure of a fishery or regulated reduction of production, the NPV formula may not adequately provide for doubtful loans.

Revenue Recognition

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Pension Expense and Obligation

The employees of the Fund are not members of the Civil Service of the Province of Manitoba but they contribute to, and are pensionable under, the Civil Service Superannuation Fund. In accordance with the provisions of the Manitoba Civil Service Superannuation Act, the Fund will contribute 50% of the pension payments made to retired employees. The current pension expense consists of the employer's share of pension benefits paid to retired employees, as well as the increase in the unfunded pension liability during the fiscal year. This liability is determined actuarially every three years with the balances for the intervening years being determined by a formula provided by the actuary. The most recent actuarial valuation as at December 31, 2004 indicated the accrued liability is in line with the obligation forecast in the report.

In fiscal years prior to 1989, the Fund charged to operations contributions to the Manitoba Civil Service Superannuation Fund which amounted to 50% of the pension payments made to retired employees. Beginning in the 1989 fiscal year, the Fund has recorded a provision to fund current service obligations.

The total liability as at March 31, 2006 amounts to $1,637,502 (2005 - $1,647,867).

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated on a straight-line basis as follows:

Office furniture and equipment 10 - 30%

Financial Instruments

The Fund's financial instruments consist of cash and trust deposits, accounts receivable, loans receivable, accounts payable and amounts due from and to the Province of Manitoba.

The financial risk is the risk to the Fund's revenues that arise from fluctuations in interest rates and degree of volatility of these rates. The Fund has established policies to manage its exposure to fluctuating interest (referred to as interest rate risk).

The Fund is exposed to credit risk that arises from the collection of loans receivable and realization of property held for resale.

All financial instruments are denominated in Canadian dollars.

The Fund does not participate in derivative financial instrument trading or foreign exchange transactions.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

1. Nature of the Fund

The Communities Economic Development Fund was established in 1971 (Ch. C155) as a Crown corporation to encourage the optimum economic development of remote and isolated communities within the Province of Manitoba. With an act revision passed in July, 1991 the objective of the Fund was set to encourage economic development in Northern Manitoba, to act as a lending authority in the fishing industry in the Province of Manitoba and to provide financial assistance to Aboriginal people in the Province outside the City of Winnipeg. The Business and Fisheries Loan Programs are administered under the C.E.D.F. Act.

2. Due from the Province of Manitoba

Annually, the Province of Manitoba provides a grant to cover the Fund's anticipated subsidy requirements for the year. The amount of $2,028,844 (2005 - $2,120,222) represents additional funds needed to cover the actual requirements for the year including coverage for the pension liability. The balance is comprised of the following:

Department of Aboriginal and Northern Affairs	2006	2005
Subsidy (refundable)	**$ 263,178**	$ (212,077)
Order in Council pending	**62,764**	619,032
Pension (unfunded)	**1,620,890**	1,633,681
Pension (funded)	**16,612**	14,186
Severance accrual (unfunded)	**65,400**	65,400
	$ 2,028,844	$ 2,120,222

3. Loans Receivable	2006	2005
Business Loan Program		
Principal	**$ 10,736,028**	$ 11,514,504
Accrued interest	**665,387**	835,407
	11,401,415	12,349,911
Allowance for doubtful loans (Note 8)	**1,441,646**	1,381,348
	9,959,769	10,968,563
Fisheries Loan Program		
Principal	**11,705,019**	11,897,820
Accrued interest	**885,110**	790,237
	12,590,129	12,688,057
Allowance for doubtful loans (Note 8)	**2,949,198**	2,834,581
	9,640,931	9,853,476
TEAM Loan Program		
Principal	**38,979**	43,585
Accrued interest	**11,301**	8,395
	50,280	51,980
Allowance for doubtful loans (Note 8)	**40,443**	51,996
	9,837	(16)
	$ 19,610,537	$ 20,822,023

The following schedule provides the gross amount of loans together with the loan allowances:

	2006		2005	
	Gross Loan Balances	**Total Allowance**	Gross Loan Balances	Total Allowance
Business Loan Program				
Impaired	**$ 2,340,182**	**$ 451,542**	$ 1,931,718	$ 860,438
Performing	**9,061,233**	**990,104**	10,418,193	520,910
	11,401,415	**1,441,646**	12,349,911	1,381,348
Fisheries Loan Program				
Impaired	**$ 2,949,198**	**$ 2,949,198**	$ 2,834,581	$ 2,834,581
Performing	**9,640,931**	**-**	9,853,476	-
	$ 12,590,129	**$ 2,949,198**	$ 12,688,057	$ 2,834,581
TEAM Loan Program				
Impaired	**$ 50,280**	**$ 40,443**	$ 51,980	$ 51,996

4. Capital Assets

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Office furniture and equipment	**$ 159,077**	**$ 141,926**	**$ 17,151**	$ 21,847

5. Loan Commitments

	2006	2005
Undisbursed balance of approved loans	**$ 3,413,270**	$ 1,451,342

6. Commitments

The Fund has committed to leases as follows:

Digital mail equipment	$3,093 annually, expires April 2008
Postage scale and software	$737 semi-annually, expires February 2009

7. Advance by the Province of Manitoba

	2006	2005
Business Loan Program (Note 9)	**$ 10,328,418**	$ 9,779,853
Fisheries Loan Program (Note 9)	**10,832,516**	10,490,144
	$ 21,160,934	$ 20,269,997

The Fund obtains capital for the purpose of carrying out its mandate of providing financial assistance in the form of loans and guarantees through loans provided by the Department of Finance. Term loans bear interest at the rates posted by the Department of Finance at time of issue. The Fund also has the option to draw funds on floating rates set periodically at the Royal Bank prime rate minus 3/4%. At year end, the Fund's instruments bore rates ranging from 4.10% to 5.75% with a weighted cost of capital of 4.56%.

8. Allowance for Doubtful Loans

The change in the allowance is accounted for as follows:

	Specific	Non-Specific	2006 Total	2005 Total
Business Loan Program				
Balance, beginning of year	**$ 860,438**	**$ 520,910**	**$ 1,381,348**	$ 2,251,440
Provision for the year	**439,242**	**(69,368)**	**369,874**	473,308
	1,299,680	**451,542**	**1,751,222**	2,724,748
Loans written-off	**(309,576)**	**-**	**(309,576)**	(1,343,400)
Balance, end of year	**$ 990,104**	**$ 451,542**	**$ 1,441,646**	$ 1,381,348

	2006	2005
	Total	Total
Fisheries Loan Program		
Balance, beginning of year	**$ 2,834,581**	$ 2,762,805
Provision for the year	**131,500**	86,662
	2,966,081	2,849,467
Loans written-off	**(16,883)**	(14,886)
Balance, end of year	**$ 2,949,198**	$ 2,834,581
TEAM Loan Program		
Balance, beginning of year	**$ 51,996**	$ 51,996
Recovery of loans previously written-off	**(11,553)**	-
Balance, end of year	**$ 40,443**	$ 51,996

The provision for fish loan losses recorded by the Fund exceeds the value derived by the net present value formula as at March 31, 2006 by $278,134 (2005 - $113,020).

	2006	2005
Loan Loss Provision		
Per accounts	**$ 2,949,198**	$ 2,834,581
Per net present value calculation	**(2,671,064)**	(2,721,561)
	$ 278,134	$ 113,020

The commercial fishing industry is cyclical in nature and as a result, no adjustment has been made to the loan loss provision as at March 31, 2006.

9. Loan Programs

Business Loan Program

The Communities Economic Development Fund is included under the Province of Manitoba's Loan Act Authority. Advances from the Province of Manitoba bear interest at rates established by the Minister of Finance pursuant to "The Loan Act, 2005". The advances are repayable at any time in whole or in part at the option of the Lieutenant Governor in Council.

Advances from the Business Loans Program are accounted for as follows:

	2006	2005
Advances, beginning of year	**$ 11,731,301**	$ 13,223,876
Loan advances	**3,550,337**	2,049,840
Loan advance repayments	**(3,187,562)**	(2,763,378)
Loan write-offs	**(261,248)**	(779,037)
	11,832,828	11,731,301
Unfunded allowance, beginning of year	**1,951,448**	2,257,177
Provision for doubtful loans	**369,874**	473,308
Write-offs (Order in Council approved)	**(816,912)**	(779,037)
	1,504,410	1,951,448
Net balance, end of year (Note 7)	**$ 10,328,418**	$ 9,779,853

Fisheries Loan Program

Advances to the Fisheries Loan Program are accounted for as follows:

	2006	2005
Advances, beginning of year	**$ 13,373,656**	$ 13,079,554
Loan advances	**3,649,472**	3,547,514
Loan advance repayments	**(3,175,600)**	(3,253,412)
Loan write-offs	**(65,818)**	-
	13,781,710	13,373,656
Unfunded allowance, beginning of year	**2,883,512**	2,808,512
Provision for doubtful loans	**131,500**	75,000
Write-offs (Order in Council approved)	**(65,818)**	-
	2,949,194	2,883,512
Net balance, end of year (Note 7)	**$ 10,832,516**	$ 10,490,144

10. Loan Act Authority

Amounts authorized for advances under "The Loan Act, 2005" are as follows:

	2006
Per Schedule A of "The Loan Act, 2005"	$ 6,910,000
Per Schedule B of "The Loan Act, 2004"	13,489,620
Direct loans	20,399,620
Advances made during the fiscal year	7,199,809
Unused Loan Act capital available	$ 13,199,811

11. Economic Dependence

The ongoing operations of the Communities Economic Development Fund depends on obtaining adequate financing and funding. The Fund is dependent upon the Province of Manitoba for funding of operations.

12. Fair Value of Financial Instruments

The carrying amounts of cash and deposits, accounts receivable, amounts due from the Province of Manitoba and accounts payable are a reasonable estimate of the fair value because of the short maturity of those instruments. The advances by the Province of Manitoba has a market rate of return (Note 7) and is a reasonable estimate of the fair value.

The carrying value of loans receivable approximate their fair value. In the absence of readily ascertainable market values, management has estimated that fair value would not differ materially from carrying value. Factors considered in this determination include underlying collateral, market conditions, financial data and projections of the borrowers. Because of the inherent uncertainty of valuation, the estimate of fair value may differ significantly from the values that would have been used had a ready market for the assets existed.

SCHEDULE OF OPERATING EXPENSES

For the year ended March 31	2006	2005
Amortization of capital assets	**$ 10,476**	$ 17,383
Collection costs	**149,416**	173,049
Communications	**49,323**	51,383
Credit reports	**2,809**	2,991
Directors' fees and expenses	**74,485**	68,201
Government vehicles	**44,883**	38,783
Insurance	**2,826**	2,723
Legal costs	**12,396**	13,785
Office supplies and expenses	**21,095**	18,499
Pension	**139,871**	167,986
Professional fees	**25,600**	24,951
Rent and utilities	**86,713**	75,240
Salaries and benefits	**1,036,571**	883,912
Sundry	**29,933**	32,871
TEAM	**31,590**	105,253
Travel	**65,700**	39,466
	$ 1,783,687	$ 1,716,476

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